

Memorandum

TO: PUBLIC SAFETY, FINANCE AND STRATEGIC SUPPORT COMMITTEE
FROM: Jim Shannon

SUBJECT: Bi-Monthly Financial Report For March/April 2025
DATE: June 4, 2025

Approved *J. Behemtri*

Date: 6/5/2025

RECOMMENDATION

Accept the Bi-Monthly Financial Report on actual revenues and expenditures as compared to the 2024-2025 Budget for the ten months ending April 2025.

OVERVIEW

The Bi-Monthly Financial Report for March/April 2025 was jointly prepared by the City Manager's Budget Office and the Finance Department. The City Manager's Budget Office has analyzed actual expenditures as compared to the 2024-2025 Modified Budget and the Finance Department has prepared a report that reflects the financial results for the ten months ending April 2025.

Through the first ten months of the fiscal year, revenues and expenditures were generally tracking within the budgeted estimates in the majority of City funds, though General Fund revenues are expected to fall short of budgeted estimates. Actions are included in the Approval of Various Budget Actions for Fiscal Year 2024-2025 memorandum scheduled for City Council review and approval on June 17, 2025 to address the revenue shortfall and recommend a number of expenditure modifications. The following are key highlights of this report:

- Overall, General Fund revenue is anticipated to fall below the budgeted estimate by approximately \$10 million, primarily due to significantly lower than anticipated Sales Tax revenue (down \$22 - \$24 million). Budget adjustments reducing General Fund revenue by \$4.7 million are included in the Approval of Various Budget Actions for Fiscal Year 2024-2025 memorandum to more closely align the budget with anticipated collections.
- Overall, General Fund expenditures are within estimated levels through April, with the exception of the Police Department and Fire Department. Budget adjustments with a net impact to the General Fund totaling \$19.7 million are recommended to increase the budget of the Police Department (\$13.5 million) and the Fire Department (\$6.2 million) as part of the Approval of Various Budget Actions for Fiscal Year 2024-2025 memorandum to address the anticipated overages.

OVERVIEW (CONT'D.)

- As a result of a significant decline in Sales Tax revenue, and the minimal level of expenditure savings currently anticipated, on December 4, 2024 the City Manager directed the Administration to implement measures to control costs to the extent possible without noticeably impacting high-priority services. Cost control measures include a hiring freeze (with exceptions); limiting overtime expenditures; a suspension of General Fund capital projects not yet started; minimizing expenditures for consultant services, travel, food and beverage, and marketing; and minimizing other discretionary expenditures. These actions aim to generate General Fund savings in the current fiscal year, minimizing rate and fee increases, and ensure flexibility for the development of budget reductions in 2025-2026. The Administration currently anticipates expenditure savings of approximately \$5 million and \$11 million in liquidation of prior year encumbrances.
- Actions are included in the Approval of Various Budget Actions for Fiscal Year 2024-2025 memorandum to reduce the Budget Stabilization Reserve by \$25.0 million (from \$53.0 million to \$28 million) to address the revenue shortfall, to partially offset the General Fund expenditure overages, and to achieve the 2024-2025 fund balance estimate of \$30 million included in the 2025-2026 City Manager's Budget Request and 2026-2030 Five-Year Forecast.
- Construction and Conveyance Tax (C&C) revenue and Real Property Transfer Tax revenues are performing above prior year levels and are anticipated to end the year at or above the budgeted estimate.
- Building and Structure Construction and Construction Excise Tax collections are anticipated to meet or exceed budgeted levels. Both revenue sources are dependent on construction activity, which is overall higher than the prior year.
- Transient Occupancy Tax (TOT) activity levels are performing above the prior year. Based on activity through April, it is anticipated that TOT will slightly exceed the budgeted estimate by year-end.
- Based on collections through April, the Citywide Planning and Public Works Development Fee Programs will meet or exceed the budgeted estimate; however, Building, Planning, and Fire Development Fee Programs may fall short of their budgeted levels.
- The San José Mineta International Airport (SJC) has enplaned and deplaned 9.4 million passengers through April, a decrease of 3.8% from the figures reported through February of the prior year.
- Within the San José Clean Energy Fund, Energy Sales are anticipated to end the year below the budgeted revenue estimate by approximately 6%, and Cost of Energy expenditures are anticipated to end the year approximately 9.9% below the budget.

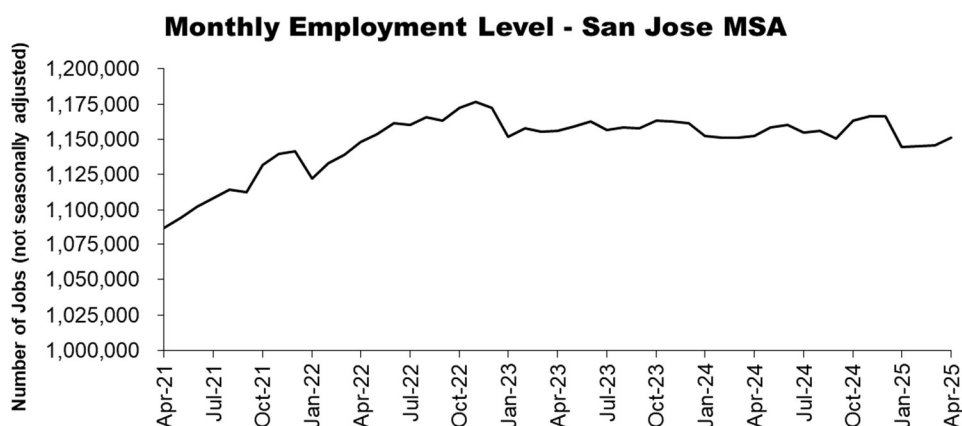
OVERVIEW (CONT'D.)

Economic Environment

Silicon Valley's economy is relatively stagnant. Employment levels have slightly decreased and the unemployment rate has slightly increased from prior year levels. Additionally, the real estate median sale prices and

transfers are slightly down and the homes are staying on the market for slightly longer. Finally, construction activity within the commercial sector has grown compared to the prior year, however, the residential and industrial sectors have declined.

The April 2025 employment level of 1.15 million in the San José-Sunnyvale-Santa Clara Metropolitan Statistical Area (San José MSA) dropped by a modest 1,400 jobs, or 0.1%, from the April 2024 level. Health care and social assistance led the job gains by increasing 8,200 positions; however, offsetting these increases were declines in professional and business services dropping 4,500 jobs and the manufacturing sector dropping by 3,900 jobs.¹



Unemployment Rate (Unadjusted)			
	April 2024	March 2025	April 2025**
San Jose Metropolitan Statistical Area*	3.8%	4.1%	3.9%
State of California	4.8%	5.3%	5.0%
United States	3.5%	4.2%	3.9%
* San Benito and Santa Clara Counties Source: California Employment Development Department.			
** April 2025 estimates are preliminary and may be updated.			

As can be seen on the table to the left, the local unemployment rate has slightly risen over the past year, with an April 2025 unemployment rate of 3.9%, compared to the April 2024 rate of 3.8%. It is important to note that the local unemployment rate is lower the State (5.0%) and is consistent with the national rate (3.9%).

¹ State of California Employment Development: Labor Market Information Division Press Release, May 16, 2025

OVERVIEW (CONT'D.)

Overall construction activity through April 2025 increased 22.3% from prior-year levels primarily due to activity for the commercial land use categories experiencing year-over-year increases of 127.8% from the prior year. The combined year-over-year increase would be more prominent if it were not for the decrease in residential and industrial construction which is showing a 9.6% and 38.0% decrease respectively when compared to the prior year. The 2024-2025 Adopted Budget was developed with the expectation that development activity would increase slightly from the levels experienced in 2023-2024. However, if current trends continue into 2025, construction activity may outperform the projections included in the 2026-2030 Five-Year Forecast, on which the estimates for the Traffic Capital Program's primary revenue sources – the Building and Structure Construction Tax and Construction Excise Tax – were based.

Through April, residential permit valuation has decreased 9.6% from prior-year levels (\$314.6 million in 2024-2025 from \$348.0 million in 2023-2024). Residential activity through April included 545 multi-family units and 454 units of single-family construction for a total of 999 units. A notable project for April includes a permit issued for a seven-story, 345-unit multi-family building located on North Capitol Avenue near Penitencia Creek Road.

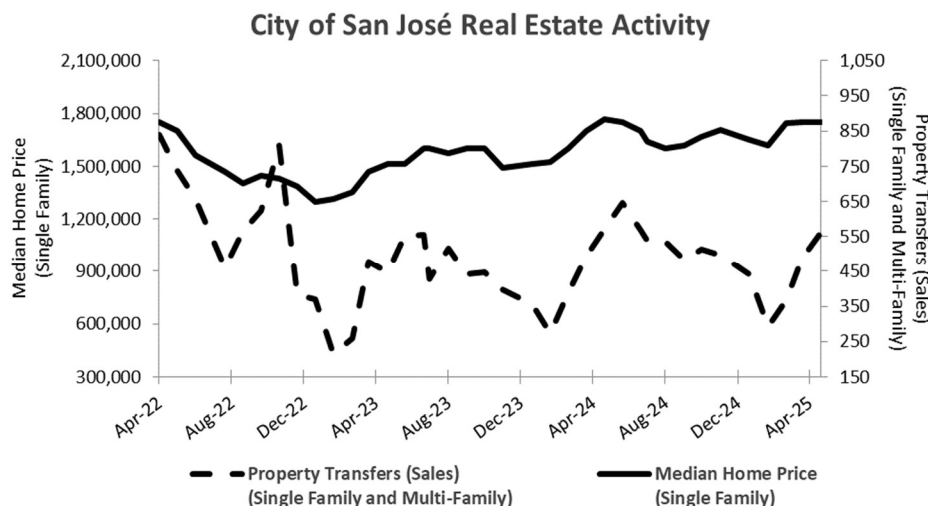
Commercial valuation through April 2025 was 127.8% higher than the 2023-2024 level (\$884.8 million in 2024-2025 from \$388.5 million in 2023-2024). Alterations accounted for almost 89% of the commercial activity for March and April (\$112.7 million). A notable project for April includes a permit issued for a 50,000 square foot retail building for auto sales, delivery, and vehicle service that is located on Evergreen Loop near South Breeze Loop. The main driver for the overall increase to the Commercial sector is due to permit activity related to two data centers in late 2024.

Private Sector Construction Activity (Valuation in \$ Million)			
	April 2024 (YTD)	April 2025 (YTD)	% Change
Residential	\$348.0	\$314.6	(9.6%)
Commercial	\$388.5	\$884.8	127.8%
Industrial	\$495.5	\$307.1	(38.0%)
TOTAL	\$1,232.0	\$1,506.5	22.3%

Industrial construction valuation through April 2025 was 38.0% lower than prior-year levels, with receipts totaling \$307.1 million in 2024-2025 from \$495.5 million in 2023-2024. Alterations accounted for almost 49% of the industrial activity for March and April (\$26.8 million). A notable project for March and April includes a permit issued for one new 200,000 square foot warehouse building located at the intersection of Qume Drive and Concourse Drive and a new 74,000 square foot warehouse building located at the intersection of Industrial Avenue near Interstate 880.

OVERVIEW (CONT'D.)

According to data from the Santa Clara County Association of Realtors, in April 2025, the median single-family home price totaled \$1.75 million, which is very slightly (1%) below the April 2024 price of \$1.77 million. While quite modest, this is the first year-over-year price drop in 22 months.



Additionally, property transfers (sales) slightly declined in April 2025 compared to the April 2024 level. In April 2025, property sales of 563 declined 2% from the 572 sales experienced in April 2024. Finally, the average days-on-market in April 2025 totaled 17 days, while the April 2024 average days-on-market totaled 13 days. As will be discussed further in this report, the declining real estate market negatively impacted April revenue collections for both the Construction and Conveyance Tax and Real Property Transfer Tax. The Administration will continue to closely monitor the local real estate market and its impact on the City's overall financial situation including both the Construction and Conveyance Tax and the Real Property Transfer Tax (Measure E).

On a national level, consumer confidence dropped sharply in April. According to Stephanie Guichard, Senior Economist at The Conference Board, "Consumer confidence declined for a fifth consecutive month in April, falling to levels not seen since the onset of the COVID pandemic. The decline was largely driven by consumers' expectations. The three expectation components-business conditions, employment prospects, and future income-all deteriorated sharply, reflectively pervasive pessimism about the future."²

GENERAL FUND

REVENUES

General Fund revenues through April 2025 totaled \$1.035 billion, which is fairly consistent with the April 2024 level of \$1.036 billion. Revenue categories that experienced increases between April 2025 and April 2024 include Revenue from the State (\$14.8 million, which is due to the timing of grant revenue), Franchise Fees (\$5.3 million), Transfers and Reimbursements (\$5.1 million), Property Tax (\$4.3 million), and Utility Tax (\$2.9 million). Year-over-year decreases include Sales Tax (-\$2.0 million) and Fees, Rates and Charges (-\$1.1 million).

² The Conference Board, Consumer Confidence Survey, April 2025.

GENERAL FUND (CONT'D.)

Additionally, Real Property Transfer Tax, which had experienced revenue of \$33.0 million through April 2024 is no longer reflected in the General Fund in 2024-2025 as this revenue is now recognized in the Real Property Transfer Tax Fund.

Based on current collection trends, several revenue categories are anticipated to end the year below budgeted levels. The most impacted category is Sales Tax, which may end the year \$22 - \$24 million below the budgeted estimate. On a positive note, several revenue categories are anticipated to end the year above budgeted levels: Utility Tax (\$5 million), Franchise Fees (\$3 million), Property Tax (\$3 million), and Transfers and Reimbursements (\$3 million). General Fund revenue will continue to be very closely monitored and discussion regarding any significant variances will be included in future Bi-Monthly Financial Reports.

The 2026-2030 General Fund Forecast that was released in February 2025 included an amount of \$30 million that would be available at the end of 2024-2025 and budgeted for use in 2025-2026. Use of the Budget Stabilization Reserve will be necessary to offset any shortfalls in achieving this ongoing fund balance target. The Administration currently anticipates achieving a year-end fund balance of only approximately \$5 million, which includes expenditure savings and liquidation of prior year encumbrances, offset by a revenue shortfall. Actions are included in the Approval of Various Budget Actions for Fiscal Year 2024-2025 memorandum to decrease General Fund revenue by a net of \$4.7 million and reduce the Budget Stabilization Reserve by \$25.0 million (from \$53.0 million to \$28.0 million) to address both the revenue shortfall and meet the fund balance target. As part of the 2024-2025 Annual Report process, General Fund revenues and expenditures will be fully reconciled. If an additional action to reduce the Budget Stabilization Reserve is necessary as a result of the reconciliation, it will be included in the 2024-2025 Annual Report that will be released on September 30, 2025.

In October 2024, the Encumbrances Audit Report was reviewed by the City Council. As part of the encumbrance audit, the Administration stated prior year encumbrances across all City funds would be reviewed and liquidated as appropriate. The Finance Department previously reported preliminary results that the first batch of cleanup yielded approximately \$29.8 million of liquidated encumbrances, of which \$7.6 million was attributable to the General Fund. However, these liquidations had not yet been reconciled within the City's financial management system to determine the amount of actual budgetary savings. This process is now complete and the liquidations were higher than originally anticipated. Across all City funds, a total of \$47.7 million has been liquidated as of April 29, 2025, of which \$11.2 million is in the General Fund. These funds will be recognized in each individual fund as part of the 2024-2025 Annual Report process and will be available in 2025-2026. As mentioned above, prior year encumbrances liquidated in the General Fund will be used to help achieve the Ending Fund Balance estimate that was assumed as part of the 2026-2030 General Fund Forecast.

The discussion on the following pages highlights General Fund revenue activities through April 2025.

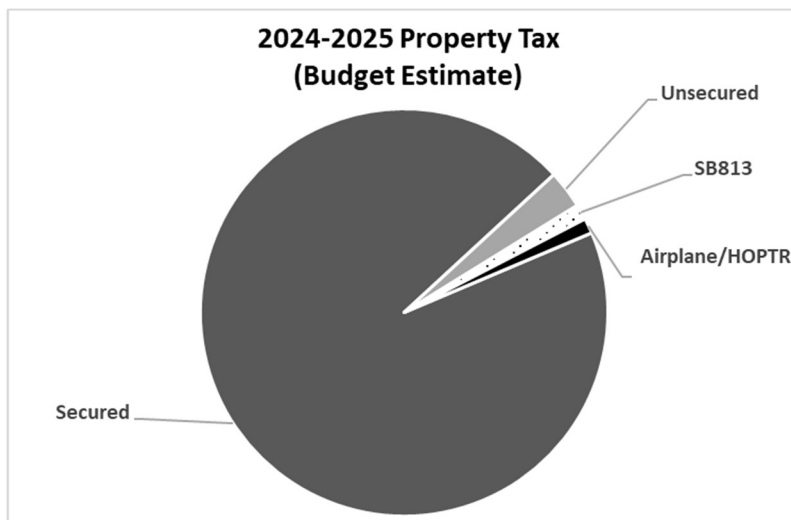
GENERAL FUND (CONT'D.)

KEY GENERAL FUND REVENUES

Revenue	2024-2025 Budget Estimate	YTD Actual	Prior YTD Collections
Property Tax	\$ 495,000,000	\$ 309,772,396	\$ 305,463,876

The Property Tax category consists of Secured Property Tax, Unsecured Property Tax, SB 813 Property Tax (retroactive collections back to the point of sale for reassessments of value due to property resale), Aircraft Property Tax, and Homeowner's Property Tax Relief. Based on the most recent information that has been received from Santa Clara County, Property Tax receipts in 2024-2025 are estimated at \$498 million, which is approximately \$3 million above the 2024-2025 budgeted estimate of \$495 million. A budget adjustment to increase the Property Tax budgeted estimate by \$3.0 million will be brought forward as part of the Approval of Various Budget Actions for Fiscal Year 2024-2025 memorandum that will be reviewed by the City Council in June 2025. Additional information about each of the Property Tax sub-categories is provided below.

Secured Property Taxes represent over 90% of the revenue in the Property Tax category. The Secured Property Tax category includes general Secured Property Tax, Educational Revenue Augmentation Fund (ERAF) revenues, and Successor Agency to the Redevelopment Agency (SARA) Residual Property Tax. Based on the most recent information provided by Santa Clara County, Secured Property



receipts are anticipated to total \$466.3 million in 2024-2025. This estimate is comprised of general Secured Property Tax receipts of \$398.0 million, excess ERAF funds of \$42.4 million, and SARA Residual Property Tax receipts of \$25.9 million. The Secured Property Tax estimate provided by the County is approximately \$1 million - \$2 million lower than the Adopted Budget estimate of \$468 million. Budget adjustments to decrease the Secured Property Tax budgeted estimate by a net of \$1.0 million will be brought forward as part of the Approval of Various Budget Actions for Fiscal Year 2024-2025 memorandum that will be reviewed by the City Council in June 2025. These actions include decreasing the general Secured Property Tax by \$2.0 million (from \$400.0 million to \$398.0 million) and increasing the SARA Residual Property Tax by \$1.0 million (from \$25.0 million to \$26.0 million).

GENERAL FUND (CONT'D.)

The general Secured Property Tax estimate totals \$398 million in 2024-2025, which reflects estimated growth of 5% from the 2023-2024 collection level. This growth primarily reflects an increase in assessed value due to the California Consumer Price Index (CCPI) increase of 2% and increased valuation due to changes in ownership or new construction of 3%. Under Proposition 13, assessed values of all real property adjust with the CCPI, with a 2% limit, unless there is a change in ownership, new construction, or a property has received a Proposition 8 adjustment.

Beginning in 1992, agencies have been required to reallocate a portion of property tax receipts to the ERAF, which offsets the State's General Fund contributions to school districts under Proposition 98. Once there are sufficient funds in ERAF to fulfill obligations, the remainder of the funding is returned to the taxing entities that contributed to it, which generally occurs in March of each fiscal year. Based on information recently provided by Santa Clara County and the State of California, 2024-2025 receipts are estimated at \$42.4 million, which is slightly below the 2024-2025 Adopted Budget estimate of \$43.0 million but is \$946,000 above the 2023-2024 collection level of \$41.5 million. It is important to note that 20% of ERAF revenue is at risk on both an ongoing basis (\$8 million annually) and a claw back (\$35 million from 2020-2021 to 2024-2025) due to an anticipated audit from the State Controller's Office that would challenge the ERAF calculation used by Santa Clara County. The County has preemptively filed litigation to dispute the actions taken by the State Controller; however, a decision on the dispute will not be known until at least fall 2025.

As a result of the SARA bond refunding that occurred in December 2017, the City began receiving a residual property tax distribution. According to the most recent information from Santa Clara County, 2024-2025 receipts are estimated at \$25.9 million, which is almost \$1 million above the 2024-2025 Adopted Budget estimate of \$25.0 million and \$1.7 million above the prior year collection level of \$24.2 million.

The **Unsecured Property Tax** category refers to property that can be relocated or is undeveloped land. The most common forms of unsecured property include boats and business personal property. According to the most recent information from Santa Clara County, 2024-2025 receipts are estimated at \$17.5 million, which is \$2.5 million above the 2024-2025 Adopted Budget estimate of \$15.0 million and \$638,000 above the 2023-2024 collection level of \$16.9 million. A budget adjustment to increase the Unsecured Property Tax budgeted estimate by \$2.5 million (from \$15.0 million to \$17.5 million) will be brought forward as part of the Approval of Various Budget Actions for Fiscal Year 2024-2025 memorandum that will be reviewed by the City Council in June 2025.

GENERAL FUND (CONT'D.)

The **SB 813 Property Tax** category represents the retroactive taxes reassessed property valuation from the period of resale to the time that the Santa Clara County Assessor formally revalues the property. According to the most recent information from Santa Clara County, 2024-2025 receipts are estimated at \$7.8 million, which is \$1.8 million above the 2024-2025 Adopted Budget estimate and \$372,000 above the prior year collections. A budget adjustment to increase the SB 813 Property Tax budgeted estimate by \$1.5 million (from \$6.0 million to \$7.5 million) will be brought forward as part of the Approval of Various Budget Actions for Fiscal Year 2024-2025 memorandum that will be reviewed by the City Council in June 2025.

Aircraft Property Tax receipts are typically received in October of each year. According to the most recent information from Santa Clara County, 2024-2025 receipts are estimated at \$5.2 million, which is slightly above the 2024-2025 Adopted Budget estimate of \$5.0 million and \$756,000 above the 2023-2024 collection level of \$4.4 million.

In the **Homeowners Property Tax Relief** category, revenues in 2024-2025 are anticipated at \$852,000, which is slightly below the budgeted estimate of \$1.0 million and the prior year collection level of \$885,000.

Revenue	2024-2025 Budget Estimate	YTD Actual	Prior YTD Collections
Sales Tax	\$ 352,000,000	\$ 220,608,111	\$ 222,580,844

The Sales Tax category includes General Sales Taxes, Local Sales Taxes, and Proposition 172 Sales Taxes. Information related to Sales Tax payments is distributed from the California Department of Tax and Fee Administration (CDTFA) four times throughout the year: November (representing July-September activity); February (representing October-December activity); May (representing January-March activity); and August (representing April-June activity). The 2024-2025 Adopted Budget estimate totals \$352.0 million, which is \$18.6 million above the 2023-2024 collection level of \$333.4 million. When the 2024-2025 Adopted Budget was developed, it was anticipated that 2023-2024 collections would total \$343.4 million and grow 2.5% in 2024-2025. However, due to significantly lower than anticipated fourth quarter General Sales Tax receipts, actual Sales Tax collections ended the year at \$333.4 million. As a result, growth of 5.6% is required to meet the 2024-2025 budgeted estimate of \$352.0 million. Based on information received through April 2025 (which reflects three quarters of Sales Tax activity; from July 2024 through March 2025), it is anticipated that 2024-2025 Sales Tax revenue will fall \$22 - \$24 million below the budgeted estimate, or approximately 1.5% below the prior year receipts of \$333.4 million, reflecting the relatively soft local economy. A budget adjustment to decrease the Sales Tax budgeted estimate by \$22.0 million will be brought forward as part of the Approval of Various Budget Actions for Fiscal Year 2024-2025 memorandum that will be reviewed by the City Council in June 2025. Additional information about each of the Sales Tax sub-categories is provided below.

GENERAL FUND (CONT'D.)

General Sales Tax is the largest driver of the Sales Tax category and accounts for approximately 80% of all Sales Tax receipts. General Sales Tax receipts for the first through third quarters have been received, with the most recent quarter being received in May 2025. First quarter receipts declined 11.4%, but had an underlying decline of only 5.5% due to one-time corrections and payment timing issues. Second quarter receipts grew 8.8%, but after one-time corrections and payment timing issues were removed, the underlying growth was only 1.0%. Third quarter receipts dropped approximately 11.8%; however, after adjusting the prior year receipts to account for one-time corrections, the May 2025 receipts grew approximately 0.3%. Fourth quarter receipts (which will be received in August 2025) are estimated to have underlying growth of 2.5%; however, due to a prior year negative correction that isn't assumed ongoing, actual collections are estimated to grow 5%. Based on these assumptions, General Sales Tax collections are anticipated to total \$262 million in 2024-2025, approximately \$22 million below the 2024-2025 Adopted Budget estimate of \$284.0 million. A budget adjustment to decrease the General Sales Tax budgeted estimate by \$22.0 million will be brought forward as part of the Approval of Various Budget Actions for Fiscal Year 2024-2025 memorandum that will be reviewed by the City Council in June 2025.

The City's Sales Tax consultant, Avenu Insights & Analytics, has provided performance data for General Sales Tax revenue, as displayed on the following chart. This analysis measures the first-second quarter General Sales Tax receipts for 2023-2024 and 2024-2025, excluding Sales Tax associated with the Revenue Capture Agreement. Given the 3rd quarter payment was only recently received, the breakout by category is not yet known.

**General Sales Tax Revenue Economic Performance
First – Second Quarter Payments**

Category	2024-2025 % of Total Revenue	2023-2024 % of Total Revenue	% Change by Category
Business-to-Business	20.2%	20.4%	(2.2%)
General Retail	18.4%	18.9%	(4.5%)
Transportation	15.8%	18.1%	(13.8%)
Food Products	14.7%	14.3%	1.4%
Construction	9.1%	9.3%	(3.1%)
Miscellaneous	0.8%	0.7%	8.0%
County Pool	20.9%	18.3%	12.8%
Total	100.0%	100.0%	

As can be seen in the table above, most Sales Tax categories declined in 2024-2025 compared to 2023-2024. The categories that experienced the largest drops included Transportation (-13.8%), General Retail (-4.5%), Construction (-3.1%) and Business-to-Business (-2.2%). Conversely, several categories experienced growth compared to the prior year, including the miscellaneous category (8.0%) and Food Products (1.41%). In addition, the County Pool, which is where the majority of online transactions are captured, also grew compared to the prior year (12.8%). The County Pool revenue is distributed to all cities within Santa Clara County based on a distribution formula administered by the CDTFA. This formula is based each quarter on each jurisdiction's total General Sales Tax receipts divided by the Total General Sales Tax receipts for the entire County. The City typically receives between 45% - 50% of the total County Pool.

GENERAL FUND (CONT'D.)

In June 2016, San José voters approved a ¼ cent Local Sales Tax, which was implemented in October 2016. Local Sales Tax is generated based on the destination of the purchased product; therefore, all out-of-state online retailers (including marketplace facilitators) sales tax collections are directly distributed to the City of San José, versus the General Sales Tax revenue that is deposited in the County Pool, where the City only receives approximately 45% - 50% of the proceeds. Due to this distinction, Local Sales Tax revenue may not always experience the same growth and decline rates as General Sales Tax receipts. The 2024-2025 budgeted estimate for Local Sales Tax totals \$60.0 million, which is \$3.1 million (5.4%) above the prior year. Local Sales Tax receipts for the first through third quarters have been received, with the most recent quarter being received in May 2025. First quarter receipts dropped 4.7% compared to the prior year; however, second quarter collections grew 2.9%, and third quarter collections grew 5.1%. The final quarter of 2024-2025, which will be received in August 2025, is anticipated to grow by 2.5% from the same time period in 2023-2024. Based on these assumptions, Local Sales Tax collections are anticipated to total \$58 million in 2024-2025, approximately \$2 million below the budgeted estimate.

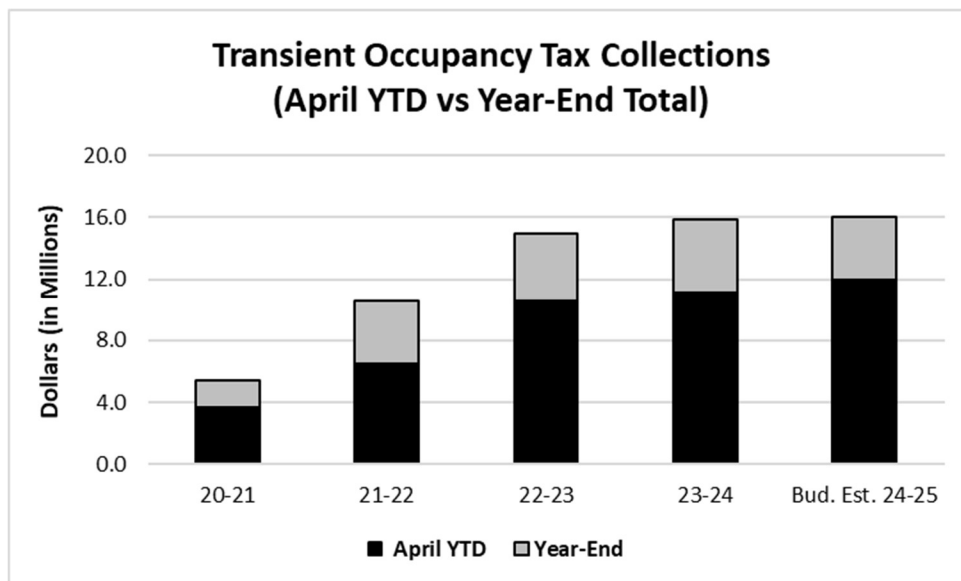
Proposition 172 Sales Tax collections represents the ½ cent tax that is allocated to counties and cities on an ongoing basis for funding public safety programs. Revenue in 2024-2025 are estimated at \$8.0 million, which is consistent with the budgeted estimate and the 2023-2024 actual collection level. Based on collections through April, receipts are anticipated to end the year within the budgeted level.

GENERAL FUND (CONT'D.)

Revenue	2024-2025 Budget Estimate	YTD Actual	Prior YTD Collections
Transient Occupancy Tax	\$ 16,000,000	\$ 11,931,816	\$ 11,131,284

The City of San José assesses a 10% **Transient Occupancy Tax (TOT)** on the rental price for transient lodging. Of this amount, 6% is placed in the Transient Occupancy Tax Fund and 4% is deposited in the General Fund. The 2024-2025 budget estimate for the General Fund allocation is \$16.0 million, which is fairly consistent with the 2023-2024 actual collection level of \$15.9 million. Through April, TOT collections total \$11.9 million, which is 7.2% above the prior year collection level of \$11.1 million. Based on activity through April, it is currently anticipated that TOT receipts will exceed budgeted levels by approximately \$1 million. A budget adjustment to increase the Transient Occupancy Tax budgeted estimate by \$1.0 million will be brought forward as part of the Approval of Various Budget Actions for Fiscal Year 2024-2025 memorandum that will be reviewed by the City Council in June 2025.

Based on April 2025 data, the average hotel occupancy rate reported for the San José market was 66.2%, a 2.1 percentage point increase from the average of 64.1% through the same period in 2023-2024. The average daily room rate increased by 5.5%, from \$162.98 as of



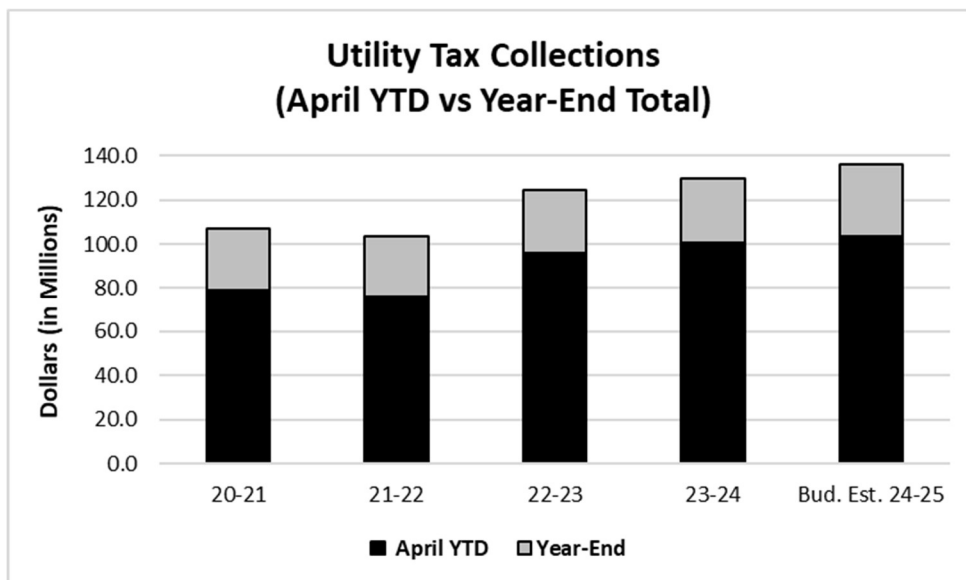
April 2024 to \$171.88 as of April 2025; and the year-to-date average revenue-per-available room (RevPAR) increased by 8.8%, from \$104.52 to \$113.71, relative to the same period in 2023-2024.

In partnership with Team San Jose (the City's operator of convention and cultural facilities, as well as the Convention and Visitors Bureau), the Administration will continue to actively monitor hotel and revenue performance and provide updates in the next Bi-Monthly Financial Report, which will be released in June 2025.

GENERAL FUND (CONT'D.)

Revenue	2024-2025 Budget Estimate	YTD Actual	Prior YTD Collections
Utility Tax	\$ 136,000,000	\$ 103,616,001	\$ 100,762,544

The **Utility Tax** category includes the Electricity Utility Tax, Gas Utility Tax, Water Utility Tax, and the Telephone Utility Tax. Through April, Utility Tax receipts totaled \$103.6 million, which is 2.8% higher than the prior year level of \$100.8 million. In addition, \$5.5



million of Electricity Utility Tax revenue was deposited in the City's financial system in May, but was attributable to April activity. When taking into account this revenue, April Utility Tax revenue increased 8.3% compared to the prior year level. The year-over-year increase represents higher collections in the Electricity and Water Utility Tax categories, partially offset by lower Gas and Telephone Utility Tax receipts. The overall increase in Utility Tax collections is attributable to higher activity levels and higher utility rates. The 2024-2025 Adopted Budget estimate of \$136.0 million requires growth of approximately 5% from the 2023-2024 collection level. Based on activity through April, it is currently anticipated that overall Utility Tax receipts will end the year approximately \$5 million above budgeted levels. A budget adjustment to increase the Utility Tax budgeted estimate by \$5.0 million will be brought forward as part of the Approval of Various Budget Actions for Fiscal Year 2024-2025 memorandum that will be reviewed by the City Council in June 2025. Additional information about each of the Utility Tax sub-categories is provided below.

In the **Electricity Utility Tax** category, collections through April totaled \$61.3 million, which is 7.3% higher than the \$57.1 million received in the prior year. However, as discussed above, revenue totaling \$5.5 million was deposited in the City's financial system in May, but was attributable to April activity. When taking this revenue into account, April Electricity Utility Tax revenue totaled \$66.8 million, which is 17.0% higher than the prior year. This increase is due to higher electricity utility rates and/or higher usage. The 2024-2025 Adopted Budget estimate for Electricity Utility Tax totals \$76.0 million, which requires growth of 4.3% from the 2023-2024 collection level of \$72.9 million. Based on collections through April and historical collection patterns, receipts are anticipated to exceed the

GENERAL FUND (CONT'D.)

budgeted estimate by approximately \$9 million by year-end. A budget adjustment to increase the Electricity Utility Tax budgeted estimate by \$9.0 million (from \$76.0 million to \$85.0 million) will be brought forward as part of the Approval of Various Budget Actions for Fiscal Year 2024-2025 memorandum that will be reviewed by the City Council in June 2025.

In the **Gas Utility Tax** category, collections through April totaled \$12.5 million, which is relatively flat compared to the prior year collection level. The 2024-2025 Adopted Budget estimate totals \$17.0 million, which requires growth of 6.7% from the 2023-2024 collection level of \$15.9 million. Based on collections through April and historical collection patterns, receipts are anticipated to end the year approximately \$1 million below the budgeted estimate. A budget adjustment to decrease the Gas Utility Tax budgeted estimate by \$1.0 million (from \$17.0 million to \$16.0 million) will be brought forward as part of the Approval of Various Budget Actions for Fiscal Year 2024-2025 memorandum that will be reviewed by the City Council in June 2025.

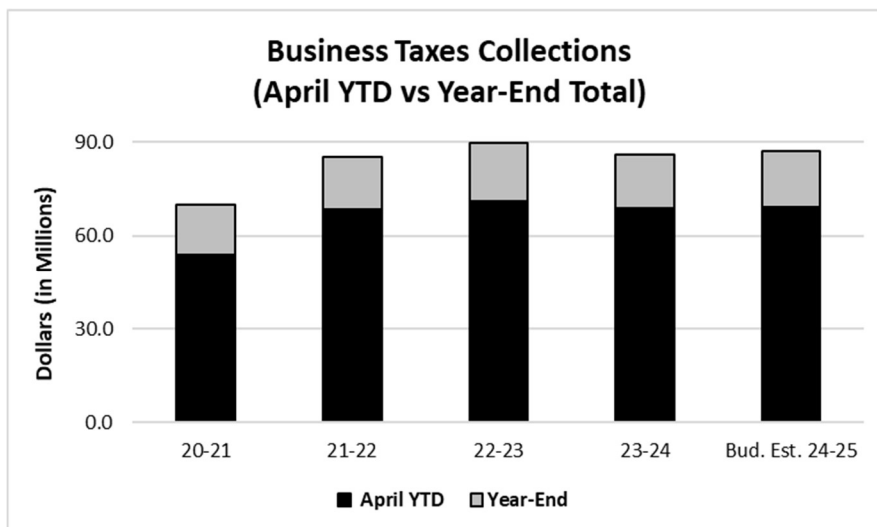
In the **Water Utility Tax** category, collections through April totaled \$16.9 million, which is relatively flat compared to the prior year collection level. The 2024-2025 Adopted Budget estimate totals \$25.0 million, which requires growth of 12.8% from the 2023-2024 collection level of \$22.2 million. Based on collections through April and historical collection patterns, receipts are anticipated to end the year approximately \$2 million below the budgeted estimate. A budget adjustment to decrease the Water Utility Tax budgeted estimate by \$2.0 million (from \$25.0 million to \$23.0 million) will be brought forward as part of the Approval of Various Budget Actions for Fiscal Year 2024-2025 memorandum that will be reviewed by the City Council in June 2025.

Collections in the **Telephone Utility Tax** category of \$9.8 million through February are 13.4% below the prior year collections of \$11.4 million. The 2024-2025 Adopted Budget estimate totals \$18.0 million, which allows for a 4.2% drop from the 2023-2024 collection level of \$18.8 million. Based on collections through April and historical collection patterns, receipts are anticipated to end the year approximately \$1 million below the budgeted estimate. A budget adjustment to decrease the Telephone Utility Tax budgeted estimate by \$1.0 million (from \$18.0 million to \$17.0 million) will be brought forward as part of the Approval of Various Budget Actions for Fiscal Year 2024-2025 memorandum that will be reviewed by the City Council in June 2025.

GENERAL FUND (CONT'D.)

Revenue	2024-2025 Budget Estimate	YTD Actual	Prior YTD Collections
Business Taxes	\$ 87,000,000	\$ 69,263,106	\$ 68,973,255

The Business Taxes category consists of the Cannabis Business Tax, Cardroom Tax, Disposal Facility Tax, and General Business Tax. Through April, overall collections of \$69.3 million are 0.4% above the prior year collection level. The 2024-



2025 Adopted Budget of \$87.0 million requires growth of 1.1% from the 2023-2024 Business Taxes collection level of \$86.1 million. Based on collections through April it is currently anticipated that overall Business Taxes receipts will end the year within budgeted levels. Budget adjustment to increase and decrease various Business Tax categories will be brought forward as part of the Approval of Various Budget Actions for Fiscal Year 2024-2025 memorandum that will be reviewed by the City Council in June 2025. However, these adjustments result in a net zero change to the overall Business Tax budgeted estimate. Additional information about each of the Business Taxes sub-categories is provided below.

Cannabis Business Tax collections reflect cannabis business tax as well as cannabis business tax compliance revenues. Cannabis Business Tax collections began after San José voters approved Ballot Measure U on November 2, 2010, which allowed the City to tax marijuana businesses. Further, in November 2016, the California Marijuana Legalization Initiative (Proposition 64) was approved by voters, which legalized recreational marijuana use in California. As a result, the sale of recreational cannabis at 16 registered businesses in San José began in January 2018. Through April, receipts of \$9.5 million are 11.7% below the prior year level of \$10.8 million. This drop is primarily due to lower activity levels as two businesses have closed. The 2024-2025 Adopted Budget estimate totals \$15.0 million, which allows for a 4.3% drop from the 2023-2024 collection level of \$15.7 million. Based on collections through April and the closing of the two businesses, receipts are anticipated to end the year approximately \$1 - \$2 million below the budgeted estimate. A budget adjustment to decrease the Cannabis Business Tax budgeted estimate by \$1.0 million (from \$15.0 million to \$14.0 million) will be brought forward as part of the Approval of Various Budget Actions for Fiscal Year 2024-2025 memorandum that will be reviewed by the City Council in June 2025.

GENERAL FUND (CONT'D.)

Through April, **Cardroom Tax** receipts, which are inclusive of the ballot measure approved by voters in November 2020 (Measure H) that increased taxes on cardroom operators beginning in January 2021, totaled \$22.7 million. This collection level is 2.5% above the prior year receipts of \$22.1 million, which is due to higher activity levels. The 2024-2025 Adopted Budget estimate totals \$30.0 million, which is consistent with the 2023-2024 collection level. Based on collections through April and historical collection patterns, receipts are anticipated to end the year approximately \$1 million above the budgeted estimate. A budget adjustment to increase the Cardroom Business Tax budgeted estimate by \$1.0 million (from \$30.0 million to \$31.0 million) will be brought forward as part of the Approval of Various Budget Actions for Fiscal Year 2024-2025 memorandum that will be reviewed by the City Council in June 2025.

It is important to note that in February 2025, the California Bureau of Gambling Control published a Notice of Proposed Regulatory Action concerning player-dealer position regulations. A final decision will be rendered at some point in 2025-2026. The proposed change in regulation, if enacted, would significantly negatively impact Cardroom Business Tax collections. As further information is known, it will be included in the 2024-2025 Annual Report, which will be released on September 30, 2025.

Disposal Facility Tax (DFT) are business taxes received based on the tons of solid waste disposed of at landfills within the City. This revenue stream can vary due to factors that affect the amount of waste generated and how it is disposed including: economic activity, weather, diversion programs, and price sensitivity to disposal rates. DFT revenue through April totaled \$8.3 million, which is 14.3% below the prior year collection level of \$9.6 million. The 2024-2025 Adopted Budget estimate of \$13.0 million is consistent with the 2023-2024 collection level of \$12.9 million. Based on performance through April and historical collection patterns, receipts are anticipated to end the year approximately \$1 million below the budgeted estimate. A budget adjustment to decrease the Disposal Facility Tax budgeted estimate by \$1.0 million (from \$13.0 million to \$12.0 million) will be brought forward as part of the Approval of Various Budget Actions for Fiscal Year 2024-2025 memorandum that will be reviewed by the City Council in June 2025.

Through April, **General Business Tax** receipts of \$28.8 million are 9.0% above the prior year collection level of \$26.4 million. The 2024-2025 Adopted Budget estimate for General Business Tax totals \$29.0 million, which requires growth of 5.7% from the 2023-2024 actual collection level of \$27.4 million. Based on collections through April and historical collection patterns, receipts are anticipated to end the year approximately \$1 million above the budgeted estimate. A budget adjustment to increase the Cardroom Business Tax budgeted estimate by \$1.0 million (from \$29.0 million to \$30.0 million) will be brought forward as part of the Approval of Various Budget Actions for Fiscal Year 2024-2025 memorandum that will be reviewed by the City Council in June 2025.

GENERAL FUND (CONT'D.)

EXPENDITURES

Through April, General Fund expenditures (without encumbrances) of \$1.4 billion were 21.7% above the prior year level of \$1.1 billion. This relatively larger year-over year increase is primarily attributable to the one-time transfer of Measure E revenues, previously received in the General Fund, to the new Real Property Transfer Tax Fund (\$160.5 million). Encumbrances of \$120.2 million were 6.3% below the prior year level of \$128.3 million. General Fund expenditures and encumbrances through April of \$1.5 billion constitute 67.1% of the total budget including reserves and 77.2% of the budget excluding reserves. Overall, General Fund expenditures are anticipated to end the year within budgeted levels with minimal additional savings.

Through April, departments are overall performing within estimated levels for personal services expenditures, with the exception of the City Clerk, Environmental Services Department, Finance Department, Fire Department, Information Technology Department, Police Department, and Public Works Department. With the exception of the Police Department and Fire Department, all other departments are only slightly over anticipated levels and are expected to end the year within overall budgeted levels. Following is a discussion of the performance of the Police and Fire Departments, the largest General Fund departments.

KEY GENERAL FUND EXPENDITURES

Department	2024-2025 Budget	YTD Actual	Prior YTD Actual
Police	\$ 553,508,965	\$ 440,664,578	\$ 408,726,940

Overall, Police Department expenditures are tracking above estimated levels through April 2025 in both personal services and non-personal/equipment expenditures. Despite certain cost controls implemented by the Department as discussed below, both personal services and non-personal/equipment spending (excluding vehicle purchases) are estimated to exceed budgeted levels by year-end. Budget actions being taken as part of the Approval of Various Budget Actions for Fiscal Year 2024-2025 memorandum that will be reviewed by the City Council in June 2025 are discussed below.

Personal services expenditures of \$404.0 million are above the anticipated level for this point of the year (81.1% expended, compared to the par level of 78.6%). Within this category, year-to-date overtime expenditures of \$55.1 million are 11.7% above 2023-2024 levels, and year-to-date overtime hours of 567,245 increased by approximately 5.9%. The year-over-year increase is attributable to staffing shortages, academy and training for new officers, and backfilling street-ready vacancies.

The Department is currently on pace to exceed its personal services budget of \$498.0 million by approximately 3%. Actions will be brought forward as part of the Approval of Various Budget Actions for Fiscal Year 2024-2025 memorandum that will be reviewed by the City Council in June 2025 to increase the personal services budget by \$17.0 million to account for this overage. Additional discussion of overtime expenditures follows.

GENERAL FUND (CONT'D.)

A total of \$36.7 million (66.1%) of the Department's non-personal/equipment budget (\$55.5 million, including carry-over encumbrances) has been expended through April 2025. Excluding the remaining balances for centrally-determined details (\$15.6 million), which include electricity, gas, and water utilities, as well as vehicle operations, maintenance, and replacement, the Department has approximately \$3.2 million, or 5.8% of its non-personal/equipment budget available for the remainder of the fiscal year. Two actions will be brought forward as part of the Approval of Various Budget Actions for Fiscal Year 2024-2025 memorandum that will be reviewed by the City Council in June 2025: reduce the budget for vehicle purchases by \$5.0 million to partially address the personal services overage, and increase the budget by \$1.5 million to match the required expenditure levels for ammunition supplies and telecommunication services. Due to the length of time between when vehicles are ordered and when they are received and paid for, the \$5.0 million reduction is not anticipated to have a service impact and will be evaluated for restoration as part of the 2026-2027 Base Budget development process when the timing and costs of Police Department vehicle replacements are assessed.

The Police Department has implemented a number of actions to reduce overtime expenditures, including: 1) the creation of a dashboard to review and audit overtime usage; 2), the elimination of gang suppression pay cars on overtime; 3) a significant reduction to the use of BFO staff to assist Bureau of Investigations in major investigative operations; and 4) the mandatory spend down of compensatory time balances after March 31 (see discussion below). However, these controls will not fully offset the additional overtime spending required to backfill for vacant sworn positions.

Overtime and Compensatory Time

Through the use of available vacancy savings, funding is made available to pay for police academy recruits and their subsequent field training, as well as to backfill vacant patrol and investigative positions on overtime. The average duration for the academy and field training is approximately 10-12 months, requiring overtime to backfill vacancies in patrol until the new recruits are ready to serve as solo beat officers, as well as overtime for seasoned personnel to serve as field training officers. Effective vacancy levels, which include vacancies of field training officers, academy recruits, and sworn personnel on disability, modified, or other leaves, reduce the amount of street-ready sworn officers available and are the most significant contributing factor to overtime usage. The effective vacancy rate was 23.2% as of May 2, 2025. Historically, the effective vacancy rate has averaged 19.2% (based on the 5-year period between 2019-2020 and 2023-2024), resulting in the build-up of compensatory time balances for sworn personnel, for which there is a limit of 480 hours after which sworn personnel are paid in overtime for any additional hours worked. Overtime consists of both overtime expenditures and compensatory time. The Memorandum of Agreement (MOA) with the Police Officer's Association (POA) limits how much overtime can be earned for pay versus compensatory time.

GENERAL FUND (CONT'D.)

In accordance with the POA MOA, the Police Department is enforcing compensatory time controls by requiring all sworn staff, outside of the Bureau of Field Operations (BFO), to reduce compensatory time balances by the end of each calendar year, or to submit a request for an extension and to prioritize compensatory time as requested time off (outside of sick leave purposes). As ordered by the Chief, sworn staff are required to submit a plan to their immediate supervisor each year, consistent with MOA section

13.6.5.1, by December 1, excluding sworn staff assigned to Patrol. Each plan must outline how a sworn staff member will reduce their compensatory time by March 31, with the intent to reduce the number of officers reaching the 480-hour limit. Beginning April 1, sworn personnel outside of BFO have been mandated to spend down their compensatory leave balances. While these mandatory leaves will somewhat lessen the pace of accumulation of compensatory time, both the overall compensatory balances and overtime payments for personnel at the 480-hour limit have increased year-over-year as shown in the table below.

	April 2024	April 2025	% Change (2024 to 2025)	% Change (2023 to 2024)
# of Sworn Personnel at 480-hour limit	413	435	5.33%	0.00%
# of Sworn Personnel between 240 and 480 hours	284	281	(1.06%)	(7.49%)
Sworn Compensatory Time Balance Liability (hours)	337,909	343,262	1.58%	(2.74%)
Sworn Compensatory Time Balance Liability (\$)	\$28.5 M	\$30.1 M	5.71%	1.99%
YTD Overtime Expenses for Staff at 480-hour Limit (\$)	\$21.3 M	\$25.3 M	19.04%	13.86%

The year-over-year increase of overtime use in 2024-2025 is primarily attributable to BFO (increase of 27,344 hours) and Bureau of Administration (increase of 3,860 hours), partially offset by a reduction to Bureau of Investigations (decrease of 7,189 hours). Though the Department remains focused on recruitment efforts to reduce vacancy levels, additional work is needed in the near term for continued operational adjustments to reduce overtime use and a multi-year budget adjustment to align the overtime to better reflect the level of need. The Administration will further evaluate overtime use to develop potential solutions for consideration next year's budget development process.

Sworn Staffing and Recruit Academies

The table below provides a summary of sworn staffing vacancies and street-ready officers. There are currently 22 recruits who are taking part in the next phase of their career as Field Training Officers. There are currently two active academies, October 2024 (17 recruits) and February 2025 (25 recruits). The Department is anticipating that the June 2025 academy will draw 40 recruits. As of May 2, 2025, of the 1,172 authorized sworn staff, 64 or 5.4% of the positions were in training, while 74 or 6.3% of the positions were on disability/modified duty/other leaves.

GENERAL FUND (CONT'D.)

	2023-2024 (as of 5/3/2024)	2024-2025 (as of 5/2/2025)
Authorized Sworn Positions	1,173	1,172
(Vacancies)/Overstaff	(117)	(134)
Filled Sworn Positions³	1,056	1,038
Field Training Officer/Recruits	(73)	(64)
Street-Ready Sworn Officers Available	983	974
Disability/Modified Duty/Other Leaves	(74)	(74)
Street-Ready Sworn Officers Working	909	900

Department	2024-2025 Budget	YTD Actual	Prior YTD Actual
Fire	\$ 302,194,428	\$ 245,953,001	\$ 228,563,680

The Fire Department's budget totals \$302.2 million, comprised of a personal services budget of \$285.8 million and a non-personal/equipment budget of \$16.4 million. Overall, Fire Department expenditures are performing above estimated levels through April 2025. Personal services expenditures are \$231.9 million, representing 81.13% of the Modified Budget, higher than the anticipated par level of 78.63%, and is projected to exceed current budgeted levels by \$8.2 million. This variance can largely be attributed to reimbursable wildfire deployments, vacation, and sick time payouts, as well as increases in overtime to backfill positions and maintain the daily minimal staffing level for deployed resources of 190 personnel.

Through the end of April, the Department responded to 88,087 incidents (Priority 1 and Priority 2 type calls) compared to the 86,621 incidents (1.7% increase) during the same period in 2023-2024. Budget adjustments totaling an estimated \$8.5 million will be brought forward as part of the Approval of Various Budget Actions for Fiscal Year 2024-2025 memorandum that will be reviewed by the City Council in June 2025. Part of those budget actions will be offset by reimbursements of \$2.3 million for prior wildfire deployments (Strike Team), bringing the cumulative wildland fire mutual aid response reimbursement to approximately \$3.2 million. Any additional reimbursements for wildland fire mutual aid response will be recognized as part of the Annual Report budget phase. Furthermore, \$143,000 in reimbursements were received from the Federal Emergency Management Agency for training and deployments to the Tropical Disturbance Puerto Rico and Tropical Cyclone Milton. The Department will continue to remain proactive in maintaining adequate staffing levels to effectively meet the growing demand for emergency services.

³ Filled sworn positions and authorized sworn positions may vary due to vacancies or the approval of over-strength (temporary) positions. The Police Department has special authority under the City's Sworn Hire Ahead Program to overstaff sworn positions to get a head start on training recruits due to retirement and other separation.

GENERAL FUND (CONT'D.)

The Fire Department's Non-Personal/Equipment budget of \$16.4 million was 85.90% expended or encumbered through April 2025, exceeding the par level of 78.63% due to current encumbrances (\$3.6 million), reimbursable costs incurred for prior wildfire deployments, and higher than anticipated costs for vehicle operations and maintenance. However, after accounting for reimbursable expenses, non-personal/equipment expenditures are anticipated to end the fiscal year within budgeted levels. Budget adjustments totaling an estimated \$166,323, associated with reimbursed expenditures for wildland fire deployments, will be brought forward as part of the Approval of Various Budget Actions for Fiscal Year 2024-2025 memorandum, which will be presented to the City Council for review in June 2025.

The Fire Department has an average sworn vacancy rate of 6.94% through April 2025, with 50 sworn positions currently vacant, and is notably lower than the vacancy rate of 10.10% experienced at this time last year. The Department will maintain efforts to address vacancies through continued focus on recruiting, hiring, and training personnel, and keep pace with staffing attrition. The Fire Department began its spring academy (Academy 25-01) in March 2025 with a cadre of 21 Firefighter Recruits. All recruits are certified as Emergency Medical Technicians, with 16 additionally certified as Paramedics.

In accordance with the City Council's approval of a March 2010 report on annual vacancy and absence rates, the Fire Department has committed to limiting administrative assignments for sworn administrative personnel for overtime control purposes. As of the end of April, of the 33 current authorized staffing levels, the Fire Department had 33 sworn personnel on administrative assignments.

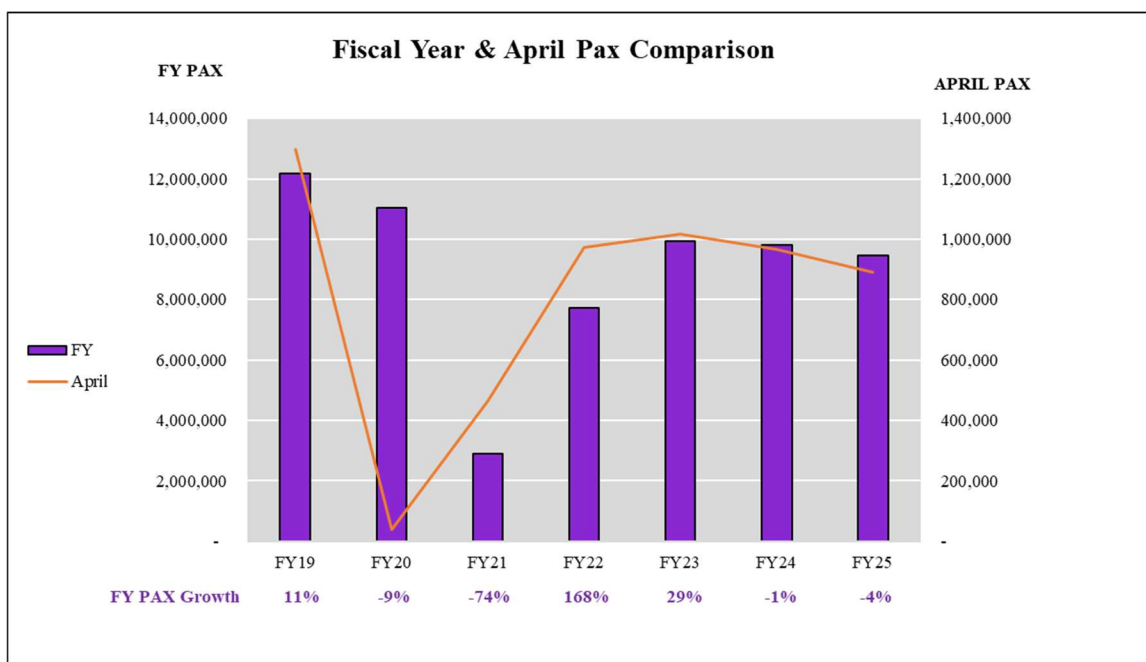
CONTINGENCY RESERVE

The General Fund Contingency Reserve was amended as part of the 2023-2024 Annual Report, increasing the reserve by \$3.0 million, from \$50.0 million to \$53.0 million. This reserve level complies with Council Policy 1-18, Operating Budget and Capital Improvement Program Policy, which requires the Contingency Reserve to be at a minimum of 3% of the operating budget.

OTHER FUNDS

Airport Funds

On a fiscal year-to-date basis, the San José Mineta International Airport (SJC) has enplaned and deplaned 9.4 million passengers, a decrease of 3.8% from the figures reported through April of the prior year. The chart below depicts the year-over-year change for the month of April and fiscal year-to-date for the last six years.



Fiscal year-to-date mail, freight and cargo totaled 49.6 million pounds, which represents an 8.0% decrease over year-to-date April of 2024. Revenue-generating activities had a mixed performance with year-over-year decreases in Traffic Operations (landings and takeoffs) by 0.4%, Landed Weights by 2.1%, and Parking Exits by 7.6%. Conversely, Gallons of Aviation Fuel and Ground Transportation trips have increased year over year by 16.1% and 5.1%, respectively.

Through April, overall revenue performance at the Airport tracked 7.5% above budgeted levels. All revenue categories are tracking above budgeted levels: Landing Fees (+6.1%), Terminal Rentals (+3.2%), Airfield (+2.8%), Terminal Concessions (+33.1%), Parking and Roadway (+2.7%), and General and Non-Aviation (+17.3%). In addition, the Airport has recognized the final \$10 million of American Rescue Plan Act Grant Funding this fiscal year, in line with expectations. Despite the continued reduction in passenger levels, the positive revenue performance can be attributed to increased fees and strong utilization of Airport facilities and revenue generating services such as parking, aircraft fueling, transportation network companies, and rental cars. The continual strong performance of Terminal Concessions revenue is a result of the Airport's ongoing efforts in opening new concession locations and promoting current and local options to passengers. Airport revenues will continue to be closely monitored through this fiscal year.

OTHER FUNDS (CONT'D.)

Through April, both the Airport Customer Facility and Transportation Fee Fund and Airport Maintenance and Operation Fund non-personal/equipment expenditures are below budgeted levels. In the Airport Maintenance and Operation Fund, Personal Service expenditures were below the benchmark, spending 76.8% of budget compared to the benchmark of 78.6%, while Non-personal/Equipment expenditures were 53.9% compared to the benchmark of 73.3%. Non-personal/Equipment expenditures in the Airport Customer Facility and Transportation Fee Fund were 62.2% compared to the straight-line benchmark of 83.3%.

San José Clean Energy Fund

The Energy Department operates San José Clean Energy (SJCE), supplying residents and businesses of San José with cleaner energy options than PG&E and access to energy efficiency community programs. In February, the City Council approved SJCE's power mix and rate package for 2025 at 7.2% - 9.5% below PG&E rates for its standard GreenSource product inclusive of PG&E's added fees and depending on customer class and usage. SJCE's rate-setting process considers PG&E's generation rates, which are expected to be lower in calendar year 2025 compared to 2024. Energy content for GreenSource increases to 62% renewable energy and up to 95% carbon-free power.

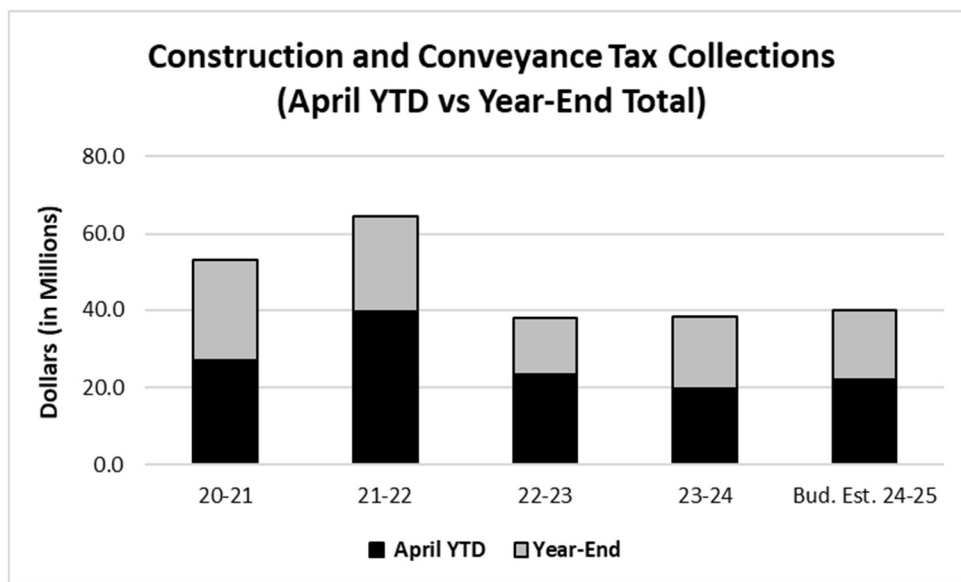
Through April, Energy Sales totaled \$432.15 million, which is consistent with prior year level and represents 80.4% of the 2024-2025 Adopted Budget estimate of \$537.6 million. Cost of Energy expenditures including encumbrances totaled \$413.7 million, or 13.0% above prior year levels of \$366.2 million and 79.1% of the Modified Budget. The Energy Department monitors energy procurement activities closely and estimates that Energy Sales will end the year at approximately \$503.0 million or 6.4% below the budgeted estimate of \$537.6 million, and the Cost of Energy is estimated to end the year at \$441.4 million, which is 9.9% below the Adopted Budget of \$490.0 million. Power supply costs make up over 90% of what SJCE must recover in revenue and are expected to decrease over time due to market conditions, the increased reliance on long-term power purchase agreements coming online, and the issuance of bond proceeds to pre-pay for certain long-term power agreements.

SJCE received its first investment-grade credit rating in 2024, indicating a strong and stable financial outlook. Nonetheless, the high volatility of market prices and PG&E's Power Charge Indifference Adjustment fees remain risk factors for SJCE to continue to manage. To help mitigate these risks and protect SJCE customers from market variability, the City Council approved a Financial Reserve Policy that authorized an Operations and Maintenance Reserve with a goal to achieve 180 days of operating costs, and a Rate Stabilization Reserve that defers ratepayer revenue up to an amount at 10% of the total operating and non-operating revenue per fiscal year to be recognized in a future year to offset expenditures and ensure customer rates remain competitive and affordable. On June 3rd, the City Council approved the Department's recommendation to increase the Rate Stabilization Reserve maximum to 25% of the total operating and non-operating revenue reported in a year. In 2024-2025, the Operating Reserve is budgeted at \$219.0 million, or the equivalent of 168 days of coverage, and the Rate Stabilization Reserve has a balance of \$50.0 million.

OTHER FUNDS (CONT'D.)

Construction and Conveyance Tax Funds

Through April 2025, Construction and Conveyance (C&C) Tax receipts totaled \$28.0 million, which represents 70% of the 2024-2025 Adopted Budget estimate of \$40.0 million. This amount is 10.7% above collections received through April 2024. However, the City



has received the May Conveyance receipts from Santa Clara County, which total \$3.8 million, representing a 13.5% decrease from May 2024 receipts. The Administration will closely monitor the remainder of the fiscal year to determine if the negative year-over-year decline experienced in May continues over the next few months. When taking into account total receipts through April and the estimated May collections, C&C receipts in 2024-2025 total \$31.9 million, which represents a 7% increase from the 2023-2024 collection level. The 2024-2025 Adopted Budget estimate requires growth of approximately 4.5% from the 2023-2024 collection level of \$38.2 million. Based on collections through May, it is anticipated C&C receipts will total \$43.0 million, which is \$3.0 above the Adopted Budget estimate. A full reconciliation of this tax will occur at the end of the fiscal year and will be discussed as part of the 2024-2025 Annual Report, which will be released on September 30, 2025.

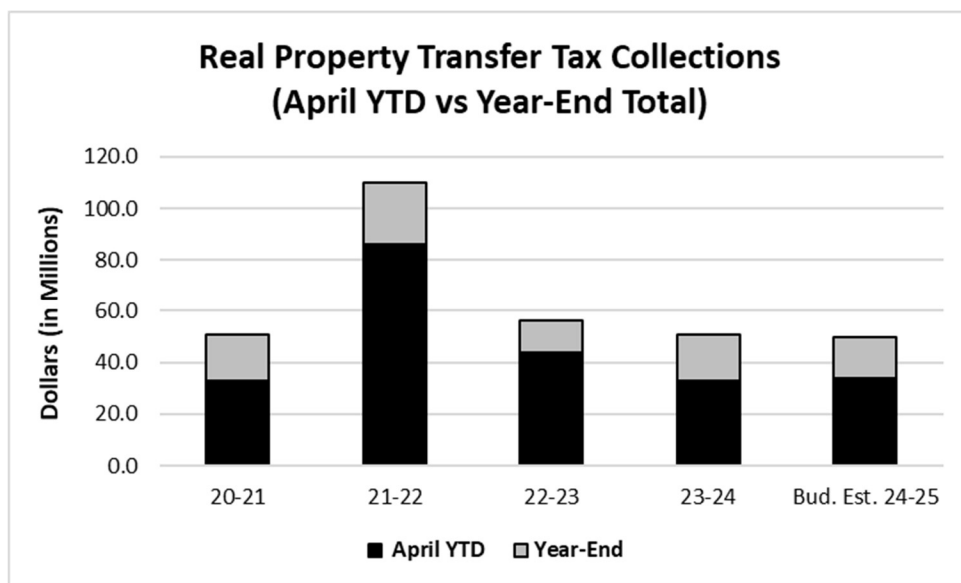
Over 99% of the total Construction and Conveyance Taxes are comprised of conveyance receipts, a tax based on the value of property transfers (sales). As discussed in the Economic Environment section of this Bi-Monthly Financial Report, similar to C&C collections, property transfers are experiencing year-over-year gains. Since housing statistics are a key driver for the overall C&C collection levels, significant changes in the housing market will drastically affect the C&C Tax receipts. The local market will continue to be closely monitored, with updates provided in future Bi-Monthly Financial Reports.

OTHER FUNDS (CONT'D.)

Real Property Transfer Tax Fund

On March 3, 2020, San José voters approved Measure E, the Real Property Transfer Tax. This new tax, which became effective on July 1, 2020, is imposed at a tiered level for property transfers (sales) over \$2.0 million. In accordance with City Council Policy 1-18, Section 22, this tax revenue is allocated for the development of new affordable housing, homelessness prevention, and homelessness support programs. Beginning in 2024-2025 Real Property Transfer Tax revenue and its associated expenditures were moved from the General Fund to the Real Property Transfer Tax Fund.

Through April 2025, Real Property Transfer Tax collections totaled \$33.7 million, which is 1.9% above the prior year level of \$33.0 million. However, the City has recently received the May tax receipts from Santa Clara County, which totaled \$4.7 million



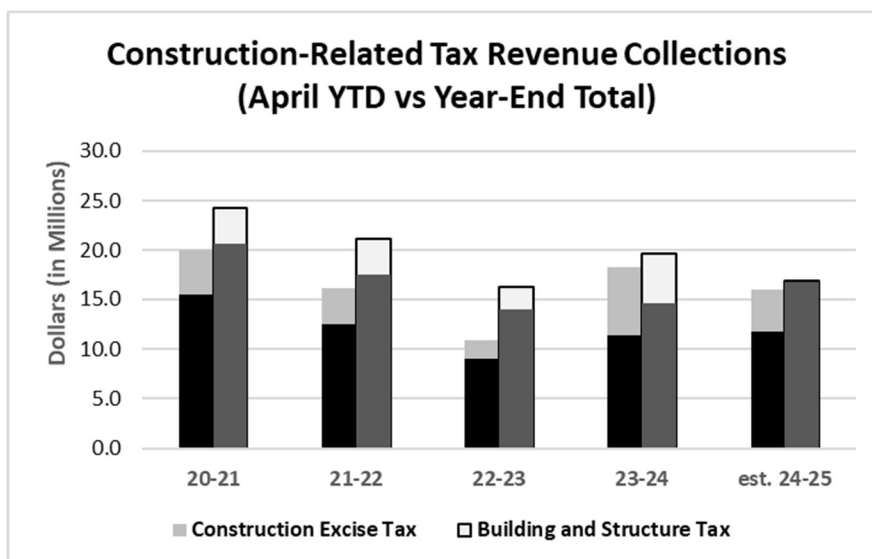
and reflected a 31% decline compared to the prior year receipts. The Administration will closely monitor the remainder of the fiscal year to determine if the negative year-over-year decline experienced in May continues over the next few months. When taking into account total receipts through April and the May remittance, total Real Property Transfer Tax receipts in 2024-2025 totaled \$38.3 million, compared to the prior year level of \$39.8 million. The 2024-2025 Adopted Budget estimate totals \$50.0 million, which is consistent with the 2023-2024 collection level. Based on the performance through May and historical collection patterns, Real Property Transfer Tax revenue is anticipated to meet the budgeted estimate. A full reconciliation of this tax will occur at the end of the fiscal year and will be discussed as part of the 2024-2025 Annual Report, which will be released on September 30, 2025.

OTHER FUNDS (CONT'D.)

Other Construction-Related Revenues

Construction activities drive revenue collection in several categories, including the Building and Structure Construction Tax and the Construction Excise Tax (which are described in further detail below) that help fund the City's Traffic Capital Program, and are an indicator of future activity for several other categories, such as storm and sanitary sewer system fees. Based on activity through April, both the Building and Structure Construction Tax and Construction Excise Tax are anticipated to end the year above the budgeted estimate.

Through April, the Building and Structure Construction Tax collection level of \$16.8 million represents 98.7% of the budgeted estimate (\$17.0 million), and is 14.5% above receipts through April 2024 of \$14.7 million. Overall permit valuation through April is higher than the permit valuation for the same period last fiscal year as a result of higher



commercial activity, offset by lower residential permit and industrial permit activity. When the 2024-2025 Adopted Capital Budget was developed, it was anticipated that 2023-2024 Building and Structure Construction Tax receipts would total \$17.0 million, and remain flat in 2024-2025. However, since 2023-2024 receipts ended the year at \$19.6 million, the 2024-2025 budgeted estimate allows for a 13.4% decrease from the prior-year collection level to meet budgeted levels. Based on collections through April, the Building and Structure Construction Tax revenue is anticipated to end the year at \$20.0 million, which is \$3.0 million above the budgeted estimate.

Through April, the Construction Excise Tax collection level of \$11.8 million represents 73.7% of the \$16.0 million budgeted estimate, and is 3.2% above receipts through April 2024 of \$11.4 million. Construction Excise Tax receipts tend to follow the trend for residential and commercial project valuation. While April 2025 valuation is lower for residential projects than the same period last fiscal year, the valuation for commercial projects is considerably higher. When the 2024-2025 Adopted Capital Budget was developed it was anticipated 2023-2024 Construction Excise Tax receipts would total \$15.0 million, then increase by approximately 6.7% to \$16.0 million in 2024-2025. However, since 2023-2024 receipts ended the year at \$18.4 million, the 2024-2025 budgeted estimate allows for a 12.8% decrease from the prior-year collection level. Based on collections through April, the Construction Excise Tax Revenue is anticipated to meet or slightly exceed the budgeted estimate by year end.

OTHER FUNDS (CONT'D.)

Development Fee Program Funds

Development Fee Programs include the Building Development Fee Program, Citywide Planning Fee Program, Fire Development Fee Program, Planning Development Fee Program, and Public Works Development Fee Program Funds. Based on collections through April, the Citywide Planning and Public Works Development Fee Programs will meet or exceed the budgeted estimate; however, the Building, Planning, and Fire Development Fee Programs may fall short of their budgeted levels. Additional information about each of the Development Fee Program Funds is provided below.

The **Building Development Fee Program** issues building permits and oversees construction on private property. Through April 2025, Building Permit revenues of \$33.7 million are 12.6% above the prior-year collection level of \$29.9 million. The 2024-2025 Adopted Budget estimate of \$36.6 million anticipates a 1.75% decrease from the 2023-2024 collection level of \$37.2 million. Based on current collection trends, Building Fee revenues are anticipated to end the year at or slightly below the budgeted estimate after accounting for \$4.6 million of projected revenue to be deferred for works-in-progress.

The **Citywide Planning Fee Program** provides funding for the City's long-range planning projects, such as developing and updating the City's General Plan, to match the City's planning goals. The Citywide Planning Fee is an 11.97% fee applied to Entitlement, Building Permit Fees, and Building Plan Check Fee Categories. Through April 2025, Citywide Planning Fee revenues of \$3.1 million are 9.1% above the prior-year collection level of \$2.8 million. The 2024-2025 Adopted Budget estimate of \$3.5 million anticipates a 2.6% decrease from the 2023-2024 collection level of \$3.5 million. Based on current collection trends, Citywide Planning Fee revenues are anticipated to end the year at or slightly above the budgeted revenue estimate due to increased activity in Building Inspection.

The **Fire Development Fee Program** issues operational and development permits and inspections to ensure economic activities adhere to the City of San José's fire codes. Fire Development related fees and charges through April 2025 totaled \$6.8 million, which is 7.9% below the same period in 2023-2024. Approximately \$6.7 million is attributable to permitting activity, inspection activities, and plan reviews and inspections. The overall lower level in revenue is attributable to the deferral of \$1.6 million for work-in-progress revenue, applied in April 2025. The 2024-2025 Adopted Budget included an estimate of \$9.6 million, which assumed a 5.5% increase from the 2023-2024 actual collection level of \$9.1 million. However, due to the work in progress revenue deferral, current collection trends indicate actual revenues will reach approximately \$8.0 million. While expenditure savings and the Beginning Fund Balance are projected to largely offset this shortfall, staff will continue to track closely the fund to maintain an adequate Ending Fund Balance.

OTHER FUNDS (CONT'D.)

The **Planning Development Fee Program** processes land development applications for planning permits and services, such as zoning review, to match the City's planning goals. Through April 2025, Planning Fee revenues of \$6.5 million are 1.3% above the prior-year collection level of \$6.4 million. The 2024-2025 Adopted Budget estimate of \$7.7 million anticipates a 2.9% decrease from the 2023-2024 actual collection level of \$7.9 million. Based on current collection trends, Planning Fee revenues are anticipated to end the year approximately \$700,000 below the budgeted estimate after accounting for \$800,000 of projected revenue to be deferred for works-in-progress.

The **Public Works Development Fee Program** ensures that developments comply with regulations and provide appropriate public infrastructure, such as sidewalks, traffic signals, and streetlights. Revenues through April of \$17.6 million increased 32.8% from the prior-year level of \$13.2 million. The Public Works Development Fee Program total revenue collections are comprised of \$8.1 million from the Development Services Fee Program, \$9.3 million from the Utility Fee Program, and approximately \$143,000 of interest. The overall year-over-year increase is moderated due to modest growth in the Development Fee Program activity, which increased by 22.1% compared to the prior the year, and the Utility Fee Program leading the overall year-over-year increase with 44.3% increase compared to the prior the year, which is primarily due to PG&E, Comcast, and other telecommunication related projects. The 2024-2025 Adopted Budget estimate of \$16.8 million allows for a 4.6% decrease from the 2023-2024 actual collection level of \$17.7 million. Revenue collections in the Public Works Development Fee Program are projected to meet or exceed the budgeted levels based on current trends after accounting for \$2.0 million of projected revenue to be deferred for works-in-progress.

CONCLUSION

Economic conditions have stagnated on an overall basis, with most major economically sensitive revenue categories experiencing slight year-over-year declines. Property Tax (the largest revenue source for the General Fund), continues to grow, but at an anticipated level of 5%, versus 7.5-8% experienced a few years ago. Conversely, Sales Tax revenue (the second largest revenue source for the City), which had experienced significant growth from 2020-2021 through 2022-2023; began dropping in 2023-2024 and continues to decline in 2024-2025. It is currently anticipated that Sales Tax revenue in 2024-2025 will fall \$22 - \$24 million below the budgeted estimate. As a result, departments were directed to control costs to the extent possible without noticeably impacting high-priority services, with the primary goal of generating General Fund savings in 2024-2025, minimizing rate and fee increases, and ensuring flexibility in the development of budget reductions for 2025-2026.

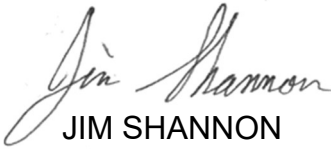
CONCLUSION (CONT'D.)

The 2026-2030 General Fund Forecast that was released in February 2025 included an amount of \$30 million that would be available at the end of 2024-2025 and budgeted for use in 2025-2026. Use of the Budget Stabilization Reserve will be necessary to offset any shortfalls in achieving this ongoing fund balance target. The Administration currently anticipates achieving a year-end fund balance of only approximately \$5 million, which includes expenditure savings and liquidation of prior year encumbrances, offset by a revenue shortfall. Actions are included in the Approval of Various Budget Actions for Fiscal Year 2024-2025 memorandum to decrease General Fund revenue by a net of \$4.7 million and reduce the Budget Stabilization Reserve by \$25.0 million to address both the revenue shortfall and meet the fund balance target. As part of the 2024-2025 Annual Report process, General Fund revenues and expenditures will be fully reconciled. If an additional action to reduce the Budget Stabilization Reserve is necessary as a result of the reconciliation, it will be included in the 2024-2025 Annual Report that will be released on September 30, 2025.

Additionally, several non-General Fund revenue categories are currently projected to end the year at or above budgeted levels, including Building and Structure Construction Tax, Construction Excise, Construction and Conveyance Tax, Citywide and Public Works Development fees, and Real Property Transfer Tax. Conversely, Building, Planning, and Fire Development fees are projected to end the year below budgeted levels, Airport activity continues to decline, and in the SJCE Fund, Energy Sales (revenue) is projected to end the year below budgeted levels and the Cost of Energy (expenditures) will end the year with savings.

The Approval of Various Budget Actions for Fiscal Year 2024-2025 memorandum includes recommendations to adjust both the General Fund and various Special and Capital Funds to align the budget with current estimates to avoid any overages in individual appropriations and to recognize new revenues and associated expenditures and reserves. The final outcome of the 2024-2025 budget performance will be reported through the 2024-2025 Annual Report, scheduled to be released on September 30, 2025 and reviewed by the City Council in mid-October 2025.

As always, staff will continue to report to the City Council significant developments through this and other budget reporting processes.


JIM SHANNON
Budget Director

ATTACHMENT: Finance Department Monthly Financial Report